



ALLETE Announces Strong 2004 Earnings Results

Expects Earnings Per Share Growth Of 45 To 50 Percent In 2005

DULUTH, Minn.--ALLETE, Inc. (NYSE: ALE) today reported 2004 income from continuing operations of \$39.1 million. Excluding a one-time charge for the early repayment of debt and a one-time gain realized by an employee stock ownership fund, income from continuing operations was \$38.5 million, an increase of 29 percent over 2003.

"Our company went through a significant transformation in 2004 and at the same time performed exceptionally well," said ALLETE President and CEO Don Shippar. "We are stronger as a result, and from what we've accomplished are poised for substantial earnings growth in 2005."

Net income from ALLETE's **Regulated Utility** business grew by 13 percent in 2004 and kilowatthour sales to Minnesota Power's industrial customers were 8 percent higher than last year. Higher benefit and maintenance expenses were more than offset by other lower expenses during 2004.

Nonregulated Energy Operations posted a slight loss in 2004. The net income contributions of the Taconite Harbor energy facility and BNI Coal were offset by losses incurred at the Kendall County facility. ALLETE recently announced that it has reached an agreement to transfer its Kendall County purchased power agreement to a subsidiary of Constellation Energy. The transfer is expected to close in April 2005.

Net income from ALLETE's **Real Estate** business increased by 4 percent in 2004. Demand for Florida property remained strong through the year. "We are excited about our future earnings prospects in this business," said Shippar.

Year-end results for ALLETE's **Other** business segment improved by \$7.8 million in 2004 over 2003, mainly due to reduced interest expense resulting from lower debt balances. The aforementioned fourth quarter gain of \$11.5 million related to the fourth quarter sale of securities held by an employee stock ownership plan offset a third quarter charge of \$10.9 million for the early repayment of debt.

During 2004, ALLETE spun off its Automotive Services business and substantially completed the sale of its Water Services business. Net income from these **Discontinued Operations** was \$73.1 million in 2004. On February 4, 2005, ALLETE closed on the sale of its last wastewater system.

For the quarter, income from continuing operations was 5 percent higher than the fourth quarter of 2003, excluding the previously mentioned one-time gain. Increased electric sales and lower interest and other expenses offset outage expenses at the Square Butte and the Taconite Harbor energy facilities.

"We expect ALLETE's earnings per share from continuing operations to grow by 45 to 50 percent in 2005," said Shippar. The company expects the increase to come from continued strong real estate sales, lower interest expense, and the transfer of the Kendall County purchased power agreement. The earnings expectation excludes an anticipated one-time charge related to the Kendall County agreement.

ALLETE's corporate headquarters are located in Duluth, Minnesota. ALLETE provides energy services in the upper Midwest and has significant real estate holdings in Florida. More information about the company is available on ALLETE's Web site located at www.allete.com.

The statements contained in this release and statements that ALLETE may make orally in connection with this release that are not historical facts, are forward-looking statements. Actual results may differ materially from those projected in the forward-looking statements. These forward-looking statements involve risks and uncertainties and investors are directed to the risks discussed in documents filed by ALLETE with the Securities and Exchange Commission.

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ALLETE, Inc.
Consolidated Statement of Income
For the Periods Ended December 31, 2004 and 2003
Millions Except Per Share Amounts

	Quarter Ended		Year Ended	
	2004	2003	2004	2003
Operating Revenue	\$178.6	\$165.9	\$751.4	\$692.3
Operating Expenses				
Fuel and Purchased Power	69.9	55.3	287.9	262.5
Operating and Maintenance	73.7	72.5	285.1	263.1
Depreciation	12.5	12.8	49.7	51.2
Taxes Other than Income	7.4	6.7	28.9	29.4
Total Operating Expenses	163.5	147.3	651.6	596.2
Operating Income from Continuing Operations	15.1	18.6	99.8	96.1
Other Income (Expense)				
Interest Expense	(6.1)	(12.6)	(31.8)	(50.6)
Other	9.3	0.3	(12.1)	2.5
Total Other Income (Expense)	3.2	(12.3)	(43.9)	(48.1)
Income from Continuing Operations Before Income Taxes	18.3	6.3	55.9	48.0
Income Tax Expense	2.4	2.1	16.8	18.2
Income from Continuing Operations Before Change in Accounting Principle	15.9	4.2	39.1	29.8
Income (Loss) from Discontinued Operations – Net of Tax	(6.2)	95.9	73.1	206.6
Change in Accounting Principle – Net of Tax	–	–	(7.8)	–
Net Income	\$ 9.7	\$100.1	\$104.4	\$236.4
Average Shares of Common Stock				
Basic	28.2	27.9	28.3	27.6
Diluted	28.4	28.1	28.4	27.8
Basic Earnings (Loss) Per Share of Common Stock				
Continuing Operations	\$0.57	\$0.15	\$1.39	\$1.08
Discontinued Operations	(0.22)	3.46	2.58	7.48
Change in Accounting Principle	–	–	(0.28)	–
	\$0.35	\$3.61	\$3.69	\$8.56
Diluted Earnings (Loss) Per Share of Common Stock				
Continuing Operations	\$0.55	\$0.15	\$1.37	\$1.08
Discontinued Operations	(0.21)	3.44	2.57	7.44
Change in Accounting Principle	–	–	(0.27)	–
	\$0.34	\$3.59	\$3.67	\$8.52
Dividends Per Share of Common Stock	\$0.30	\$0.8475	\$2.8425	\$3.39

Consolidated Balance Sheet
For the Periods Ended December 31, 2004 and 2003
Millions

	2004		2003	
	2004	2003	2004	2003
Assets				
Cash and Cash Equivalents	\$ 194.1	\$ 110.2		
Restricted Cash	30.3	–		
Other Current Assets	141.7	113.1		
Property, Plant and Equipment	883.1	919.3		
Investments	124.5	175.7		
Discontinued Operations	4.9	1,724.0		
Other	52.8	59.0		
Total Assets	\$1,431.4	\$3,101.3		
Liabilities and Shareholders' Equity				
Current Liabilities	\$ 96.7	\$ 185.5		
Long-Term Debt	390.2	514.7		
Other Liabilities	302.0	305.4		
Discontinued Operations	12.0	635.5		
Shareholders' Equity	630.5	1,460.2		
Total Liabilities and Shareholders' Equity	\$1,431.4	\$3,101.3		

ALLETE, Inc.	Quarter Ended December 31,		Year Ended December 31,	
	2004	2003	2004	2003
Net Income (Loss)				
Millions				
Regulated Utility	\$10.7	\$ 7.4	\$ 42.8	\$ 37.9
Nonregulated Energy Operations	(2.9)	0.5	(0.3)	3.7
Real Estate	(0.1)	2.8	14.7	14.1
Other	8.2	(6.5)	(18.1)	(25.9)
Income from Continuing Operations	15.9	4.2	39.1	29.8
Income (Loss) from Discontinued Operations	(6.2)	95.9	73.1	206.6
Change in Accounting Principle	—	—	(7.8)	—
Net Income	\$ 9.7	\$100.1	\$104.4	\$236.4

Diluted Earnings (Loss) Per Share

Continuing Operations	\$0.55	\$0.15	\$1.37	\$1.08
Discontinued Operations	(0.21)	3.44	2.57	7.44
Change in Accounting Principle	—	—	(0.27)	—
	\$0.34	\$3.59	\$3.67	\$8.52

Statistical Data

Kilowatthours Sold Millions				
Regulated Utility				
Retail and Municipals				
Residential	280.5	278.4	1,053.3	1,065.4
Commercial	320.9	322.1	1,281.8	1,285.6
Industrial	1,797.1	1,849.0	7,070.8	6,558.2
Municipals	209.1	204.9	823.0	841.8
Other	21.1	19.9	79.0	79.2
	2,628.7	2,474.3	10,307.9	9,830.2
Other Power Suppliers	271.7	301.0	947.5	1,313.5
	2,900.4	2,775.3	11,225.4	11,143.7
Nonregulated Energy Operations	298.1	361.7	1,496.1	1,462.3
	3,198.5	3,137.0	12,721.5	12,606.0

Notes

On September 20, 2004 ALLETE's common stock was split one-for-three. All common share and per share amounts have been adjusted for all periods to reflect the one-for-three reverse stock split.